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President's Council on Integrity and Efficiency

A Progress Report to the President

Efforts to Prevent Fraud, Waste and Mismanagement

COMPLETED

Second Six Months
Fiscal Year 1984

(38)

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President's Council on Integrity and Efficiency
EFFORTS TO PREVENT FRAUD, WASTE AND MISMANAGEMENT
Second Six Months - Fiscal Year 1984

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INTRODUCTION - THE INSPECTORS GENERAL PROGRESS REPORT

This is the eighth report of the President's Council on Integrity and Efficiency (PCIE). The PCIE is aggressively continuing its program to reduce waste, fraud and abuse and improve the management of the Federal Government.

During the six months ending September 30, 1984, the PCIE achieved dramatic results. Examples of PCIE accomplishments in detecting and preventing fraud, waste and inefficiency are:

- o 2,023 successful prosecutions (Table 1);
- o $59.3 million in investigative recoveries (Table 2);
- o 483 debarments and suspensions of persons or firms doing business with the Government (Table 3);
- o 1,056 administrative actions against Federal and contractor employees (Table 3);
- o $1.0 billion for management commitments to recover funds (Table 4);
- o $3.7 billion for management commitments to use funds more efficiently (Table 5); and
- o $4.3 billion in questionable costs sustained by contracting officials resulting from audits by the Defense Contract Audit Agency (Table 5).

The approximately $9 billion cited for this six-month period brings the cumulative results of the Inspectors General, as reported to the President's Council, to more than $46 billion in improved use of funds since the Council was established in March 1981.

These accomplishments are the result of audits and investigations used to identify and prevent fraud, waste or mismanagement. As part of this effort, the Inspectors General strived to develop sound and realistic recommendations for legislative, budget and program change, some of which are shown in the first section of this report. These recommendations are followed by tables summarizing the results of the PCIE for the six month period ending September 30, 1984, and a summary of the activities of the PCIE's committees and projects.

IG RECOMMENDATIONS RESULTING IN LEGISLATIVE, BUDGET AND PROGRAM CHANGES

During the last year, recommendations made by Inspectors General resulted in legislative, budget and program change which are preventive in nature and geared to stop future waste and mismanagement. Some examples are:

Legislative Change Lowers Medicare Lab Payments

Since 1978, reports to the Department of Health and Human Services and Congress continually pointed out that physicians and independent laboratories overcharged Medicare and Medicaid for laboratory services. Problems included claims for services not rendered, and price discrimination against the programs. OIG recommendations called for the development of a new reimbursement system to reduce payments. Subsequently, the Deficit Reduction Act of 1984 included a provision to lower Medicare rates of payments for laboratory services. Medicare savings resulting from OIG and department recommendations are estimated by the Congressional Budget Office at $974 million over a five-year budget implementation cycle (Department of Health and Human Services).

Low-cost Office Space Saves $5.8 Million

During an inspection of leasing activities in the Washington, D.C. area, the OIG identified a cost-beneficial lease renewal option for over 500,000 square feet of office space that was not going to be used. The OIG recommended that GSA take advantage of the option and management agreed. The Congress, in the FY 1985 Continuing Resolution Act, directed the Treasury to relocate one of its major activities to the facility. Using this low-cost building will save the Government over $5.8 million during the next four years (General Services Administration).

$5 Million Collected in Highway Proceeds

OIG auditors found a Federal Highway Administration (FHWA) region was not taking timely action in recovering proceeds of highway rights-of-way sold by a state highway agency. The agency had an estimated $6.6 million in credits due FHWA. The untimeliness of these remittances was costing the Federal Government about $700,000 annually in interest costs. FHWA agreed to give attention to the situation and collected $5 million in proceeds (Department of Transportation).

Audit Exclusion Amendment Dropped

Proposed amendments to the Water Pollution Control Act included provisions which would have seriously curtailed efforts to prevent waste, fraud, and abuse in the wastewater treatment construction grants program. These proposed amendments stated that once the Administrator approved a grant, EPA would be obligated to pay all costs regardless of audit findings, thus eliminating any ability to audit construction grants. The OIG proposed that this section of the bill be entirely eliminated. Subsequently, the proposed bill was amended to: eliminate the exclusion from audit; and provide one-quarter of one percent of the construction grants funded annually for the exclusive use of the Inspector General to conduct audits and investigations of the programs (Environmental Protection Agency).

Reduction in Computer Systems Purchased Saves $3.5 Million

An OIG audit revealed that the proposed purchase of 200 intelligent graphics systems was not adequately justified by the Forest Service. The Service also had not given sufficient consideration to the graphics capabilities of a recently procured information processing system. The Forest Service determined that only 82 intelligent graphics systems should be procured. A savings of about $3.5 million resulted from this reduction (Department of Agriculture).

SUCCESSFUL CIVIL AND CRIMINAL PROSECUTIONS

Over the past six months, OIG investigations have yielded 2,023 successful prosecutions. This fifteen percent increase over the previous six-months brings total prosecutions to 10,341 over the past 3 1/2 years.

Successful prosecutions represent the outcome of OIG investigations through the legal and judicial process in both civil and criminal cases. This includes the number of individuals who, as a result of OIG investigative activity, are found guilty by the courts or are the subject of pre-trial diversion. The numbers shown also include joint investigations, by Federal and non-Federal agencies.

Successful Prosecutions

Table 1

Agencies	Agency Alone	With Other 1/ Federal Agencies	With Non- 2/ Federal Agencies	Total
Agriculture	588	N/A	N/A	588
Agency for International Development	0	1	3	4
Commerce	1	3	0	4
Defense 3/	269	N/A	N/A	269
Education	19	58	3	80
Energy	8	0	0	8
Environmental Protection Agency	9	0	0	9
General Services Administration	36	2	0	38
Health and Human Services	212	60	182	454
Housing and Urban Development	132	14	7	153
Interior	18	1	1	20
Labor	121	66	24	211
National Aeronautics and Space Administration	5	1	1	7
Small Business Administration	4	7	0	11
State	1	0	0	1
Transportation	57	0	0	57
Veterans Administration	102	6	1	109
TOTALS	**1,582**	**219**	**222**	**2,023**

1/ Joint investigations with other Federal agencies include cases in which an agency actually expended significant investigative resources working in cooperation with another Federal agency (e.g., another OIG, IRS, INS, Postal Service, FBI, etc.). The majority of these are with the FBI. The FBI reported governmental fraud or bribery cases conducted independently or jointly with the IG's resulted in: 360 felony convections; 44 pre-trial diversions; and 82 misdemeanor convictions.

2/ Joint investigations with non-Federal agencies include cases in which an OIG actually expended significant investigative resources in working with state or local investigative agencies which have concurrent jurisdiction.

3/ The DOD prosecutions include Department of Justice and Military Justice System actions.

SUCCESSFUL PROSECUTIONS - EXAMPLES

The Inspectors General conduct investigations of contractors, program participants, and employees, that result in civil and/or criminal actions, indictments, and/or convictions; and in penalties, fees, settlements, and recoveries.

During the last six months IGs have obtained many successful prosecutions resulting from investigations; some of the most significant of which are highlighted below:

Bid Rigging

Forty individuals and fifteen firms were convicted of bid rigging on highway construction projects. The fines resulting from these prosecutions totalled over $2,570,000. In each case, corporations and individuals were using collusive bidding practices, which violated the Sherman Antitrust Act. This continuing nationwide investigation is being jointly conducted with the Department of Justice, Antitrust Division (Department of Transportation).

Contractor Fraud

A joint investigation with the Federal Bureau of Investigation disclosed that a contractor's employee embezzled approximately $400,000 in AID funds. The employee prepared false consultant vouchers, submitted them for payment and collected the checks, ostensibly as a favor for the "consultants." The employee used the money he had received for various personal expenses, including the down payment on a hotel in Jamaica. The investigation disclosed that the contractor did not have adequate financial controls; and that sufficient internal safeguards were not in place, allowing the employee to carry out his scheme over a period of approximately a year and a half. The employee was fired (U.S. Agency for International Development/Federal Bureau of Investigation).

Submission of False Proposals and Invoices

As a result of information received from a confidential source, an OIG investigation disclosed that a subcontractor submitted false proposals and invoices to a prime contractor. The president of the firm entered a guilty plea to a one-count felony indictment which alleged that he caused false statements to be made. Also filed in U.S. District Court was a civil settlement agreement whereby the subcontractor agreed to pay the sum of $690,000, plus accrued interest, in installment payments over the next 5 years, in satisfaction of Government claims of violations of the False Claims and Anti-Kickback Acts. The president of the firm was sentenced to a 5-year suspended sentence and six months in jail followed by 5 years probation (National Aeronautics and Space Administration).

False Certification

A 4-year joint investigation conducted in cooperation with other Federal agencies revealed that two corporations and three of their officers conspired to defraud the Government by falsely certifying that they were a small business eligible for $13 million in Government set-aside contracts. The defendants also bribed Government officials and made false statements to defraud the U.S. Army of contracts worth approximately $20 million, and did not report their income from these contracts to the Internal Revenue Service.

The defendants were convicted on charges of mail fraud, conflict of interest, interstate transportation of stolen property, misapplication of SBA funds, tax fraud, tax evasion, and racketeering activity. Finally, the defendants were convicted of conspiracy to use a Small Business Investment Company to make loans to socially or economically disadvantaged small businesses for loans for their personal benefit. The Government obtained forfeiture of one defendant's interests in a corporation, valued at approximately $12 million (Small Business Administration).

INVESTIGATIVE RECOVERIES

Many investigations conducted by the Offices of the Inspector General result in the recovery of money or property for the Federal Government. Such recoveries occur through legal actions instituted as a result of Inspector General investigations. For this reporting period, OIG investigations resulted in recoveries of $59.3 million. This brings total investigative recoveries to $272.9 million over the past three years. The agency totals on the table below do not necessarily reflect the actual monetary recoveries by the Federal Government, but they are the amounts determined to be owed to the Government.

Investigative recoveries may include: 1) recoveries made during an investigation; 2) out-of-court settlements; and 3) legally or administratively ordered recoveries (e.g., fines, penalties, restitutions, judgments, settlements, etc.).

Investigative Recoveries

Table 2

Agencies	Total Recoveries
Agriculture	$8,800,000
Agency for International Development	363,656
Commerce	52,699
Defense	18,346,823
Education	932,132
Energy	155,843
Environmental Protection Agency	91,227
General Services Administration	4,958,491
Health and Human Services	11,500,000
Housing and Urban Development	1,084,858
Interior	90,963
Labor	5,522,203
National Aeronautics and Space Admin.	1,051,925
Small Business Administration	1,582,991
State	74,633
Transportation	2,597,700
Veterans Administration	2,067,317
TOTAL	**$59,273,461**

Many of these recoveries resulted from investigations conducted in cooperation with the FBI. During the period, the FBI reported recoveries from investigations conducted independently or jointly with Inspectors General resulting in: $3,509,352 in fines; and $26,884,403 in recoveries, restitutions and court-ordered forfeitures.

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INVESTIGATIVE RECOVERIES - EXAMPLES

During the last six months, the Inspectors General have continued to identify monies and properties illegally obtained from the Federal Government. Notable investigative recoveries are highlighted below.

Mail Fraud, Theft, and Income Tax Evasion

On August 10, 1984, a fiscal payment clerk entered a plea of guilty to a 58-count indictment charging her with mail fraud, theft of Government money, and income tax evasion. She was sentenced to serve 4 1/2 years in prison and 5 years probation to run consecutively with her imprisonment. Also charged in this scheme were her sister and a friend, who was sentenced to 5 years probation and 90 days in a work-release program. In this case, all of the defendants had used the money they jointly stole to acquire assets. A civil suit was filed against all three individuals under the Federal False Claims Act. A summary judgment was issued in U.S. Federal District Court and the personal assets of the defendants were attached. The assets included one semi-tractor and refrigerated trailer, one automobile, one residence, and all of the monies the defendants had in their personal bank accounts. The government will auction off these assets and will recover at least $410,000. Of this amount, $236,000 has already been received. The court also assessed the defendants double damages (Department of Labor).

Fraud and Conversion

An Indiana County circuit court charged an attorney/farmer with three counts of fraud stemming from his conversion of 55,000 bushels of corn mortgaged to Agricultural Stabilization and Conservation Service for price support loans of approximately $152,000. The attorney pled guilty to one of three counts. This individual was also indicted by a Federal grand jury on multiple counts of embezzlement in a matter unrelated to his conversion of the mortgaged corn. On September 26, 1984, the attorney was sentenced by an Indiana State Court to 4 years incarceration, fined $5,000 and ordered to make restitution of $44,000 to Commodity Credit Corporation (Department of Agriculture).

Embezzlement

Two former co-owners of a proprietary school made restitution of nearly $111,000 to the Department of Education as part of a pretrial diversion agreement reached with the United States Attorney's Office. The pretrial diversion came after an OIG investigation established that the pair had embezzled about $60,000 in student financial assistance funds from the school's Federal accounts in early 1980 and then used the money to pay off a personal debt (Department of Education).

ADMINISTRATIVE SANCTIONS

The findings of Inspectors General have resulted in agencies imposing administrative sanctions against employees or program participants. Individual cases may involve one or more of these actions. Over the past six months, a total of 1,539 actions were levied, including 483 debarments and suspensions against individuals/entities doing business with the Federal Government and 1,056 administrative actions against employees. A total of 10,683 administrative sanctions have been taken against Federal employees and contractors over the past 3 1/2 years.

Administrative sanctions are agency actions taken as a result of OIG findings against: 1) individuals and entities doing business with the Federal Government; and 2) Federal (military and civilian) and contractor employees. Actions against individuals and entities include debarment or suspension from doing business with the agency; and actions against employees include reprimands, suspensions, demotions or terminations.

Actions Against Federal Employees and Contractors

Table 3

INDIVIDUALS/ENTITIES DOING BUSINESS WITH THE FEDERAL GOVERNMENT			PERSONNEL ACTIONS				
Agencies	Suspensions	Debarments	Reprimands	Suspensions	Demotions	Terminations	Total
Agriculture [1]	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Agency for International Development	2	0	2	1	0	5	10
Commerce	0	0	8	0	0	1	9
Defense	75	149	187	0	317	211	939
Education	0	0	0	0	0	0	0
Energy	0	1	6	0	0	2	9
Environmental Protection Agency	1	21	7	5	3	2	39
General Services Administration	6	38	43	26	2	23	138
Health and Human Services	0	93	14	1	0	15	123
Housing and Urban Development	13	45	14	5	0	3	80
Interior	1	0	9	14	4	9	37
Labor	0	1	1	1	0	6	9
National Aeronautics and Space Admin.	2	0	14	2	13	4	35
Small Business Administration	6	7	3	1	0	4	21
State	0	0	4	1	0	15	20
Transportation	1	20	2	13	0	7	43
Veterans Administration	0	1	5	4	2	15	27
TOTALS	**107**	**376**	**319**	**74**	**341**	**322**	**1,539**

Administrative Sanctions - Examples

Administrative sanctions continue to provide useful management tools for Federal agencies to take action against those who have violated laws, rules, or regulations. These sanctions may be applied concurrently or separately from the ongoing civil/criminal proceeding. The following examples highlight some of the administrative sanctions applied in the last half of FY 1984.

Real Estate Investor Suspended

A real estate investor was sentenced to 1 year in jail and 5 years probation on 19 counts of mail fraud, submitting false statements to the Government, and aiding in the commission of a felony. He was also suspended from participating in HUD programs. In a scheme to acquire properties for his own use, the investor misrepresented the intentions of purchasers to be owner-occupants of properties purchased with HUD-insured mortgages, and he used the mail to transmit false verifications of purchasers' employment and deposit (Department of Housing and Urban Development).

Contractor Suspended

An investigation determined that employees of a computer company had entertained and collaborated with National Park Service employees on a contract for a cost accounting system. The $5.9 million contract was cancelled. The company's federal programs office was suspended from participating in Federal contracts, along with five of their employees. This investigation is still ongoing (Department of the Interior).

SBICs Surrender Licenses

As a result of OIG audits, six Small Business Investment Companies (SBICs) licensed to provide capital to small businesses surrendered their licenses. The audits disclosed: irregularities in initial private capital required to be invested; serious, repeated regulatory violations of applicable rules; and operations that were not conducted in accordance with law. Five of the licensees were precluded from obtaining their first tier of leverage funding in amounts totaling about $3.2 million. The sixth licensee remitted its $100,000 outstanding fund balance. As a result of these sanctions, these SBICs can no longer participate in the program (Small Business Administration).

Misconduct by Senior Official

An extensive overseas investigation yielded evidence of serious misconduct by a senior Foreign Commercial Services official. The evidence showed that this official had (1) taken kickbacks from temporary employees; (2) submitted fraudulent vouchers to the International Trade Administration (ITA) ; (3) deliberately overbilled a U.S. State government while sponsoring an overseas mission on its behalf, and pocketed the excess; (4) used Government funds for private purposes not connected with official activities; (5) submitted a falsified bank document to ITA in an unsuccessful attempt to demonstrate that office funds were not used to pay personal expenses; and (6) maintained a substantial, unauthorized, and unaudited cash fund in the office. The improperly diverted funds amounted to more than $6,000. The official, who had been notified that the Department proposed to terminate his employment, resigned (Department of Commerce).

False Claims

An opthamologist was barred from participating in the Medicare and Medicaid programs for 25 years after he was convicted for filing false claims. The investigation revealed that the doctor told patients they had cataracts and would operate although he knew such conditions did not exist. The eyesight of a number of program recipients significantly worsened because of the unnecessary and contra-indicated surgery (Department of Health and Human Services).

MANAGEMENT COMMITMENTS TO SEEK RECOVERIES

Inspectors General audits and investigations often discover funds which should be recovered by the Government. These audit and investigative findings are then turned over to agency management which is responsible for recovering these funds. During this six-month period, agency managers have committed to seek recovery of $1 billion, which brings the cummulative total to approximately $5.7 billion over the past 3 1/2 years. Management can recover funds by collecting from the organizations or individuals audited, offsetting against existing or future contracts or grants, or negotiating reductions in contract costs or fees.

Management commitments to seek recoveries is a quantification of agency action taken during the reporting period in response to the Inspectors General recommendations (without regard to when the recommendation was made) to recover and/or reprogram expenditures, call loans and cancel guarantees, as well as the voluntary restitution of funds.

Expenditures to be recovered and/or reprogrammed may include: 1) sustained monetary recommendations management has committed to recover through billing the recipient organization or individual, offsetting payments on existing and future grants and contracts, dollar adjustment resulting from IG recommendations related to interim or post-award work, or obtaining reimbursement from third parties for use in furthering overall program benefit; and 2) an additional revenue agency management has committed to obtain because of IG recommendations (e.g., royalties, timber sales, franchise fees, etc.) and tangible goods that management has committed to recover for the Government.

Loans called and guarantees cancelled include: loan amounts management has committed to call; and amounts of loan guarantees, insurance, or bonds management has committed to cancel.

Restitutions offered are amounts to be recovered as a result of voluntary commitments to compensate the Government which occur during the course of an IG audit, investigation, or other activity.

Management Commitments to Seek Recoveries

Table 4

Agencies	Agency	Defense Contract Audit Agency	Total
Agriculture	$27,119,182	$ 0	$27,119,182
Agency for International Development	5,432,473	8,654	5,441,127
Commerce	2,739,450	0	2,739,450
Defense	4,100,000	313,880,504 1/	317,980,504
Education	35,800,000	0	35,800,000
Energy	1,733,047	989,353	2,722,400
Environmental Protection Agency	43,700,000	200,000	43,900,000
General Services Administration	3,723,139	0	3,723,139
Health and Human Services	172,500,000	100,000	172,600,000
Housing and Urban Development	40,756,963	0	40,756,963
Interior	29,039,177	53,900,000	82,939,177
Labor	65,956,191	0	65,956,191
National Aeronautics and Space Administration	0	3,200,000	3,200,000
Small Business Administration	27,806,589	33,068	27,839,657
State	102,300	0	102,300
Transportation	27,566,581	90,526	27,657,107
Veterans Administration	144,444,413	297,895	144,742,308
TOTALS	**$632,519,505**	**$372,700,000**	**$1,005,219,505**

1/ These management commitments are related to audits of incurred costs, cost accounting standards and defective pricing preformed by the Defense Contract Audit Agency and the U.S. Army Corps of Engineers.

MANAGEMENT COMMITMENTS TO SEEK RECOVERIES - EXAMPLES

The following cases illustrate various types of management commitments to seek recoveries

Improper Letter of Credit Withdrawals

During an audit of a county-administered Community Development Block Grant Program, auditors found that the county had improperly withdrawn $13 million from their letter of credit. The county returned $7.2 million which represented a refund of its remaining excess letter of credit withdrawals and a repayment of interest income earned from depositing improper letter of credit withdrawals (Department of Housing and Urban Development).

Overstated Storage Expense

When the 1983 Payment-in-Kind (PIK) Program was announced, a series of special audits were initiated to monitor and test compliance with program requirements nationwide. Under the PIK, commodities, such as cotton purchased by the Government to meet program obligations to producers, were stored at private facilities at the Government's expense until delivered to producers. During a review of the actual delivery of PIK commodities to producers, auditors identified one cooperative that overstated its storage expense for each bale of cotton because of a computer programming error in determining the number of storage days. This cooperative claimed storage of $14,653,243 instead of the correct amount of $10,896,822. The cooperative returned the $3,756,421 difference to the Government during the audit (Department of Agriculture).

Construction Overcharges

In separate grant awards, Dade County Water and Sewer Authority, Florida, and the City of Delano, California, charged the Wastewater Treatment Works Construction Grants Program $2.4 million and $1.1 million respectively for ineligible costs beyond the scope of the project or unapproved change orders. The OIG recommended recovery of these costs. On June 6, 1984, EPA sustained approximately $2.6 million -- $2.4 million in questioned costs and $200,000 in set-aside costs for the Dade County project. Of the $1.1 million questioned costs for the Delano, California project, regional officials sustained $1 million (Environmental Protection Agency).

Improper Contract Billings

The Department recovered over $256,000 as a result of audit reports which questioned a portion of the costs and fees billed by the contractor responsible for managing the Department's Naval Petroleum Reserve No. 1. The reports also identified opportunities for increasing the efficiency of the contractor's operations by implementing a more reliable material control system and a more thorough analysis and documentation of decisions to lease rather than purchase various forms of equipment. In addition to recovering the costs questioned, steps were taken to remedy the management problems noted (Department of Energy).

MANAGEMENT COMMITMENTS TO MORE EFFICIENTLY USE FUNDS

During the past six months the departments and agencies sustained Inspectors General recommendations to avoid spending approximately $8 billion, an amount totaling more than $40 billion in improved use of funds since the Council was established.

Management commitments to more efficiently use funds is a quantification of management action in response to the Inspectors General recommendations to prevent improper obligations for expenditure of agency funds or to improve agency systems and operations, and thereby avoid further unnecessary expenditures.

The amounts shown represent funds or resources that will be used more efficiently as a result of management's commitment to implement IG recommendations, including:

- Deobligation of funds as a result of IG review of agency programs or operations;

- Costs proposed in contract or grant agreements which will not be incurred as a result of management's concurrence with pre-award recommendations (recorded based on the negotiation and award of the contract or agreement). Additionally, amounts reported may include costs proposed on agreements not awarded specifically due to IG findings or recommendations. The largest amount of these costs are the result of Defense Contract Audit Agency work as shown in a separate column in Table 5;

- Estimated costs associated with agency operations and systems which will not be incurred as a result of management's commitment to implement recommended improvements;

- Estimated costs associated with a contractor's or grantee's operations paid for with Federal funds which will not be incurred as a result of managements' commitment to require recommended improvements; and

- The Federal portion of interest subsidy costs on loans or loan guarantees, insurance, or bonds management has committed not to make based on IG recommendations.

The amounts also include the dollar value of loans or guarantees (including insurance and bonds) which management has committed not to make based on the IG recommendations.

Management Commitments to More Efficiently Use Funds

Table 5

Agencies	Agency Alone	Defense Contract Audit Agency	Total
Agriculture	$188,749,802	$ 0	$188,749,802
Agency for International Development	1,840,023	0	1,840,023
Commerce	5,960,161	0	5,960,161
Defense	1,108,600,000	3,997,500,210 1/	5,106,100,210
Education	N/A	N/A	N/A
Energy	9,744,000	0	9,744,000
Environmental Protection Agency	0	3,100,000	3,100,000
General Services Administration	104,964,209	6,362,688	111,326,897
Health and Human Services	1,778,000,000	0	1,778,000,000
Housing and Urban Development	500,000	0	500,000
Interior	5,200,000	0	5,200,000
Labor	7,207,370	0	7,207,370
National Aeronautics and Space Admin.	2,347,692	258,400,000	260,747,692
Small Business Administration	7,772,130	155,556	7,927,686
State	340,506	0	340,506
Transportation	158,648,157	0	158,648,157
Veterans Administration	315,413,717	1,681,546	317,095,263
TOTALS	**$3,695,287,767**	**$4,267,200,000**	**$7,962,487,767**

1/ **These management commitments are related to audits of forward pricing proposals performed by the Defense Contract Audit Agency and U.S. Army Corps of Engineers.**

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MANAGEMENT COMMITMENTS TO MORE EFFICIENTLY USE FUNDS - EXAMPLES

The following cases illustrate various types of management commitments to more efficiently use resources.

Asset Revaluation

Results of an OIG review of depreciation and interest expense reimbursed under Medicare and Medicaid showed purchases of used medical facilities are usually made at prices exceeding the sellers' book values of those assets--and often exceeding the sellers' acquisition costs. The result is higher costs to all parties purchasing care at those facilities. The IG discussed this situation in testimony before the Subcommittee on Health, and the Subcommittee on Oversight of the House Committee on Ways and Means, in March 1984. Subsequent enactment of the Deficit Reduction Act of 1984 included a provision that limited valuating assets after sale to the allowable acquisition cost to the seller or buyer, whichever is less. The Congressional Budget Office estimates this provision will save the Medicare and Medicaid programs $635 million over a 5-year budget implementation cycle (Department of Health and Human Services).

Intermediate Care Alternatives

A review of patients hospitalized for intermediate care showed that three-quarters of the patients could be treated in less costly care environments. These environments include other types of VA facilities, community facilities, or the patient's home. Prompted by OIG findings, improved approaches to placing intermediate care patients will redirect as much as $192 million to other medical programs (Veterans Administration).

Outstanding Accounts Receivable

An audit of the Virgin Islands Water and Power Authority recommended strengthening operating procedures to effect collection of $7.8 million of outstanding accounts receivable and increase security over electric meters and power. The lack of security contributed to a power line loss of $5.2 million annually. The Virgin Islands Water and Power Authority established an action plan to enforce collection of accounts receivable and to increase security of meters and power (Department of the Interior).

Smaller Computer Purchase

About $1.7 million was saved when, as a result of an OIG audit report, a contractor operating a DOE facility re-evaluated its data processing requirements and purchased a smaller computer than had been planned. The purchase of a $3.9 million computer, as originally contemplated, would have provided capacity far exceeding the identified requirement. Management acquired the smaller computer resulting in direct and immediate savings to the Federal Government (Department of Energy).

Check Distribution Savings

An OIG survey of unemployment insurance benefit payments determined that if States converted to biweekly (rather than weekly) methods of distributing unemployment insurance (UI) checks to claimants substantial savings would result in interest, postage, bank service charges, and check writing costs. To date, 10 States are planning or have implemented biweekly UI check disbursement which will save an estimated $1.6 million annually. Nine other States are considering coversion which could result in an additional $3.7 million savings (Department of Labor).

Unneeded Construction Project Cancelled

Air Force auditors determined that planned construction projects for commercial power, roads, and expansion of a block house at a test range were not justified. The range was minimally used and adding improvements to power and roads would not provide economic benefits great enough to support the investment. Additional space in the block house was no longer needed because the expansion was based on space for incoming equipment which was no longer planned for the site. Management had planned these projects without fully evaluating range use and potential for economic benefit. The auditors recommended cancellation of plans to surface the roads, connect commercial power lines to equipment sites, and expand the block house. Management agreed with the recommendations, canceled project planning, and adjusted the budget accordingly. Estimated monetary impact is $7.4 million (Department of Defense).

ALLEGATIONS OF FRAUD, WASTE OR MISMANAGEMENT

The Inspectors General maintain hotlines and other mechanisms for receiving allegations of fraud, waste, or mismanagement from agency employees and the public. Allegations are made directly to the IG hotlines and other Offices of Inspector General or are referred by the Congress, other Executive Branch agencies, and the General Accounting Office. During this past six months, Inspectors General received 10,666 allegations of fraud, waste or mismanagement, an increase of about 18 percent over the previous reporting period. A total of 66,887 allegations have been received over the past 3 1/2 years.

Allegations of Fraud, Waste and Abuse Reported to Inspectors General

Table 6

Agencies	Total Allegations Received
Agriculture	788
Agency for International Development	121
Commerce	220
Defense	3,951
Education	71
Energy	144
Environmental Protection Agency	75
General Services Administration	176
Health and Human Services	1,912
Housing and Urban Development	157
Interior	150
Labor	1,409
National Aeronautics and Space Admin.	147
Small Business Administration	511
State	119
Transportation	303
Veterans Administration	412
TOTAL	**10,666**

ALLEGATIONS OF FRAUD, WASTE OR MISMANAGEMENT - EXAMPLES

Following are examples of allegations made to Offices of Inspector General and the results of OIG follow-up on these complaints.

Improper Contract Negotiations

An OIG investigation of a complaint found that an agency employee had a conflict of interest when he represented a contractor's interest during contract negotiations with the VA facility where he was employed. The contract award was withdrawn and ultimately awarded to another firm for $1.8 million less than the original contract amount (Veterans Administration).

Compensation Overpayments

An allegation of duplicate black lung payment cases was substantiated after thorough review by the OIG. These reviews identified overpayments in four cases amounting to $93,683. Management officials have recovered the overpayments in three cases and have initiated recovery action in the fourth case. This allegation was referred to the OIG by the U.S. General Accounting Office (Department of Labor).

Excessive Charge for Power Supply Unit

A complainant alleged a contractor was overcharging the Government for a power supply unit. OIG investigators found that the contractor agreed to provide the Government 45 power supply units at a unit cost of $6,800, although he was able to procure the items from another source and add some insulating strips for a cost approximating $2,634 each. The contract was terminated and eleven of the 45 units not yet received were purchased at the lower price for a savings of $45,826 (Department of Defense).

Embezzlement of Funds

An OIG investigation of allegations of missing union funds revealed that a Federal Protective Officer embezzled more than $11,591 during his 2-year term as local union president. The case was referred for criminal prosecution and the officer pled guilty to three felony counts of embezzlement in the U.S. District Court (General Services Administration).

PRESIDENT'S COUNCIL ON INTEGRITY AND EFFICIENCY - ACTIVITIES AND PROJECTS

The President's Council on Integrity and Efficiency (PCIE) provides leadership for Government-wide activities to reduce waste and abuse in Federal programs and operations. Since it was established by Executive order in March 1981, the Council has coordinated inter-agency efforts through standing committees and projects chaired by its members.

During the last six months, the Council also promoted the role of the Inspectors General as partners with agency management in identifying and eliminating potential program and system vulnerabilities before serious problems develop. The committees established by the Council which assist in this preventive focus include: Computer, Training, Prevention, Communications/Awareness, Single Audit, Project Selection, Accounting and Auditing Standards, Legislative, and Performance Evaluation.

COMPUTER COMMITTEE

The Computer Committee established a microcomputer training task force in June 1983 to develop and implement microcomputer training courses for Federal auditors and investigators. The task force completed its goal during this reporting period. Four courses on applying microcomputer technology to Federal audits and investigations were designed and developed, and are presently being taught at six Federal training centers nationwide. The courses are designed for hands-on training and provide each student with the exclusive use of a microcomputer. The course lengths vary and allow for the scheduling of one of the courses to be offered each Federal work week.

The Computer Committee contracted for an independent evaluation of the effectiveness of using microcomputers in OIG audits and investigations. The survey included Inspectors General, first-line supervisors, field auditors and investigators. It concluded that OIG investments in microcomputers and training are quickly recoverable. In cases using microcomputers, over thirty percent of the cases would not have been conducted without microcomputer capability. For twenty-six percent of the products generated by the use of a microcomputer, no comparable product could have been generated without that technology. Further, forty-four percent of the products were rated better than would have been possible without the availability of microcomputers.

Other projects being pursued by the Computer Committee include: preparing a training compendium for developing various levels of ADP expertise within the Office of Inspectors General; publishing microcomputer audit guidelines; assessing alternative procurement strategies for microcomputers; and continuing to support the IG Microcomputer Users Group.

TRAINING COMMITTEE

The PCIE Training Committee has three subcommittees: Auditor Training, Investigator Training, and Executive Development Training. The Committee is responsible for identifying, developing, and implementing training programs for Inspector General personnel.

Major Committee accomplishments during this reporting period were:

- Developing and presenting the final in a series of six FY 1984 half-day seminars for Office of Inspector General executives, and planning for the FY 1985 series, which began in October.

- Sponsoring a Federal Managers' Accountability Seminar for attendees at the 7-week Executive Leadership Program at the Federal Executive Institute.

- Sponsoring a one-day Computer Security Conference for top OIG and agency managers to discuss and learn about emerging issues in computer security and information resources management.

- Completing development of a new Employee Crimes course for investigators. After testing, the course is expected to be incorporated into the curriculum at the Federal Law Enforcement Training Center.

COMMUNICATIONS/AWARENESS COMMITTEE

The Communications and Awareness Committee was created to improve communication in the IG community and to enhance the image of the IG community with the agencies and the general public. The Committee completed a survey of PCIE members, and in its September 1984 report recommended specific ways to assist the PCIE membership in exchanging information on PCIE work. The survey called for a clearinghouse to exchange information among the IGs on prevention and detection techniques, communication and awareness practices, and the status of PCIE projects. It will also provide coordination in preparing the PCIE Semiannual Report to the President.

PREVENTION COMMITTEE

Initial work was completed on three ongoing Prevention Committee projects and draft reports were submitted to Committee members for comment on the following:

- Front-End and Operational Controls in the Procurement Process-Contracts

  This project developed a model pre-award review process for contracts and compiled some of the best front-end control practices for contracts currently being used in Federal, State and local government. The final report was approved by the committee and submitted to the Chairman and members of the PCIE.

- Legislative and Regulatory Review Approaches

  A statutory responsibility of most Inspectors General is to review existing and proposed legislation and regulations to determine their impact on economy and efficiency in the administration of programs and operations and on the prevention and detection of fraud and abuse in such programs or operations. This project highlighted some of the effective policies and practices used by the Inspectors General to address this responsibility. The Inspectors General were surveyed to review experiences, identify common elements and highlight successful practices and suggested procedures.

- Inspection Activities of the Inspectors General

  In September 1984, the PCIE published a report that describes the various existing inspection activities and their results. The report points out that although inspections are relatively new, they have already achieved significant results in terms of program capacity enhancements, cost savings, improvements in program efficiency, and referrals for audits and investigations. The report contains a comprehensive description of existing inspection organizations and how they operate. The information gathered in the report is intended to promote and improve inspection activites in the IG community.

Three new projects were initiated during the period. With the cooperation of representatives from contractors, small businesses, and a contractor association, a videotape entitled, "Integrity in Government Contracting" was developed and filmed. Second, the Post Investigative Remedies Subcommittee was created to examine problems with systems for referring investigative cases for criminal, civil, or administrative action. A third project was started to identify opportunities for joint efforts by IGs that would provide for sharing technical expertise, information and advanced oversight techniques.

ACCOUNTING AND AUDITING STANDARDS COMMITTEE

The Accounting and Auditing Standards Committee was established in September 1984 to assure that the Inspectors General as a group have input into formulating standards affecting them.

LEGISLATIVE COMMITTEE

The Legislative Committee reviews and monitors all legislation impacting on Inspector General activities. The Committee makes an active effort to increase IG participation in the legislative process by working with the Office of Management and Budget and the appropriate Members and Committees of Congress.

For example, the Chairman has testified before:

- The Committee on Government Operations, House of Representatives, on S. 1510, the Uniform Single Audit Act of 1984;
- The House Subcommittee on Transportation, Aviation, and Materials, Committee on Science and Technology, on Computer Security; and
- The Committee on Governmental Affairs, U.S. Senate on S. 1566, the Civil Monetary Penalties Program Fraud Act.

All three hearings focused on complex legislation designed to improve the IGs ability to crack down on fraud, waste and abuse in government programs.

SINGLE AUDIT COMMITTEE

The Single Audit Committee addresses issues concerning IG single audit responsibilities and provides authoritative interpretations and answers to questions concerning single audit requirements. In August 1984, the Committee requested each IG to provide significant single audit issues raised in their organization which the Committee should deal with in its deliberations. These suggestions have been received and are being reviewed by the Committee in setting its agenda.

PROJECT SELECTION COMMITTEE

The Project Selection Committee solicited comments and suggestions from each Office of Inspector General, for joint PCIE committee projects to be initiated during FY 1985. Many of the ideas for projects represent important concerns and innovative approaches to advance the progress and effectiveness of the IGs. The suggested projects will be summarized and distributed for review and discussion by the entire Council.

PERFORMANCE EVALUATION COMMITTEE

The Performance Evaluation Committee has produced quality standards for the operation of Offices of Inspector General. The President's Council agreed to adopt these as interim standards, to be used on a trial basis before being issued in final form. The standards have been distributed widely among the Inspector General community and are known as the "Gray Book."

CURRENT PCIE PROJECTS

In addition to standing committee work, the PCIE is actively involved in projects that address problems exceeding the capability or jurisdiction of an individual agency. These projects are targeted at specific Government-wide issues identified by Council members.

LONG-TERM COMPUTER MATCHING PROJECT

The Long-Term Computer Matching Project promotes the development and improvement of computer matching techniques at Federal and State levels. This project includes: 1) the application of computer technology to up-front screening of benefit and similar direct payment claims; 2) front-end ADP systems evaluation techniques; and 3) the expanded use of microcomputer technology.

- Income and Eligibility Verification

  Almost all of the recommendations made by the Computer Matching Project over the last two years were implemented in the Deficit Reduction Act of 1984, P.L. 98-369. The Project's recommendations regarding front-end automated eligibility screening and verification, wage reporting, and standard data exchange formats were included in the Grace Commission Report and implemented by Congress in the Omnibus Bill. The group will play a leading role on the Task Force the Office of Management and Budget has created to coordinate the implementation of the new statutory requirements.

- Federal Matching Inventory

  During this reporting period Computer Matching Project efforts resulted in publishing and distributing the first comprehensive "Inventory of Federal Computer Applications to Detect/Prevent Fraud, Waste and Mismanagement." This compendium contains synopses of over 200 Inspector General and program agency applications.

- Computer Matching Report

  Publication and distribution of the "Computer Matching Newsletter" has been contracted out. Agreement was reached with the Council of State Governments (COSG) to begin publication with the Fall 1984 issue. The IGs who co-chair the project will retain editorial authority over the content of this popular publication, which now is sent to nearly 1,000 State, Federal and local government agencies.

- Standardized Formats

  The eight-State test of the Computer Matching Standardized Formats was extended through April 1985. The final product for this task force is particularly critical to the development of regulations and guidelines for implementing the "Income and Eligibility Verification" procedures under the Deficit Reduction Act of 1984, which require States to use standardized formats in match activities.

- Front-End Eligibility Verification

  The Front-End Eligibility Verification Systems work group was established to stimulate technology transfer among the States and to prevent erroneous benefit payments. To accomplish State goals, the work group surveyed States about front-end use of computer applications to verify eligibility for AFDC, Food Stamps, Medicaid, and Unemployment Insurance. Preliminary results revealed that front-end verification usually focuses on verifying income data or verifying that an applicant does not receive duplicate benefits. Survey findings will be compiled in a catalog and made available to State officials to assist in identifying techniques that can reduce the incidence of fraud and abuse in their programs.

ENTRY LEVEL HIRING PROJECT

The PCIE's Entry Level Hiring Project was undertaken in August 1983 to evaluate staffing patterns, procedures, and identify recruitment problems throughout the IG community especially with recruiting entry level employees. The group also examined the feasibility of alternative recruitment methods and sources.

A-102 ATTACHMENT P EVALUATION PROJECT

The PCIE A-102 Attachment P Evaluation Project was completed with the issuance of its final report on May 18, 1984. The project was aimed at evaluating the implementation, impact and usefulness of the single audit process for governmental recipients of Federal funds.

The project team found that because implementation is far from complete, the impact of A-102 P could not be determined. However, the team found no evidence to indicate that the basic premise of A-102 P -- i.e., elimination of gaps in coverage and of duplication of effort, and more efficient use of resources -- would not be achieved with full implementation.

COMPUTER SECURITY PROJECT

The Computer Security Project, initiated in 1982, provides the PCIE with a perspective on the nature and scope of computer-related fraud and abuse in Government agencies and the need for increased expertise in computer auditing and security within the IG community. The project's report, "Computer-Related Fraud and Abuse in Government Agencies," outlined survey findings and made recommendations to increase training and awareness, increase scrutiny of automated systems controls and further survey work. As an outgrowth of this report, the project has had or will have the following accomplishments:

- o Computer Security Seminar - The Deputy Director, OMB, suggested a one-day seminar on the subject for IGs and Assistant Secretaries for Management/Administration. The seminar, co-hosted by the HHS-IG and the Treasury Assistant Secretary for Electronic Systems and Information Technology, was held in June 1984, with proceedings issued August 1984.

- o Prepetrator Interviews - The project work group is identifying, locating, and interviewing perpetrators from the sixty-nine fraud cases from the original study, plus subsequent cases. To date twenty-eight perpetrators from the original study and eleven from new cases have been interviewed. A draft report should be issued in early 1985.

- o Front-End EDP Systems Review and Security - To improve audit involvement and effectiveness during the design, development, implementation or major modification of automated information systems, this work group prepared responsibility matrix and critical documentation guide for the entire system life cycle stages. A report of these products and reactions to them by management and OIGs will be finished in early 1985. The workgroup also surveyed 18 private sector firms for audit practices during systems development and will issue this report.

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Department of Commerce 14th and Constitution Avenue, N.W. Room 7898-C Washington, D.C. 20230	(800) 424-5197 (202) 377-2495
Department of Defense The Pentagon, Room 1E482 Washington, D.C. 20310	(800) 424-9098 (202) 693-5080 (Autovon) 223-5080
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